

STATE OF SOUTH CAROLINA  
BEFORE THE PUBLIC SERVICE COMMISSION  
DOCKET NO. 2004-6-G

IN THE MATTER OF:	)	
	)	
South Carolina Pipeline Corporation	)	
Annual Review of the Purchased Gas	)	BRIEF OF
Adjustments and Gas Purchasing Policies	)	CONSUMER ADVOCATE
_____	)	

Elliott F. Elam, Jr., Acting Consumer Advocate for the State of South Carolina, respectfully files this Brief in support of positions taken in the above referenced proceeding. In his testimony in this matter, the Consumer Advocate called for elimination or modification of the Company's Industrial Sales Program Rider (ISPR). Since the close of the hearing, South Carolina Pipeline Corporation (SCPC) has announced that it will merge with its affiliate company, SCG Pipeline, an interstate pipeline company also owned by SCANA Corporation. As a result of the merger, the combined company will be an interstate pipeline company subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC) and not this Commission. As a result, the new company will only be able to provide gas transportation services, and will not be allowed to continue offering any gas sales services, including the ISPR program. All of SCPC's direct customers will have to make other arrangements for purchasing their gas supplies, including the company's affiliate SCE&G. In its June 25 press release announcing the merger, SCANA's description of the realities of the competitive natural gas market, and the desire of large users to purchase their own gas

supplies, are consistent with the observations made in Mr. Watkins' testimony. However, until this merger is finalized, the Commission must still rule on the ISPR program in this case.

### **ISPR Program**

As in prior PGA cases, the Company has requested that the Commission approve the continuation of SCPC's Industrial Sales Program Rider (ISPR) without modification. This request put the ISPR program at issue in this proceeding. Under the ISPR program, SCPC sells gas to certain industrial interruptible customers at a price based on each customer's stated alternate fuel cost. Each month, the customer reports the price of the alternate fuel to SCPC, and SCPC offers a value of service price to that customer. Importantly, the price charged by SCPC for natural gas supply to the customer has nothing to do with the actual cost of the natural gas to SCPC. The sales price is entirely based on the price of the customer's alternate fuel.

In his testimony in this case, Consumer Advocate witness Watkins recommended either: (1) eliminating flexible pricing, because it produces gas costs for firm residential and small business customers that are unduly discriminatory, and that such a program is no longer needed in this era of competitive gas supply markets and open access transportation; or (2) revising the ISPR such that all customer classes are assigned the same cost of gas, with any discounts to industrial customers coming from SCPC's margins. Under this scenario, there would be no price increases to any industrial customer. Any increases in base rates would be negligible in comparison to all customers' savings on gas costs. Tr. at 248.

From the evidence set forth in Mr. Watkins' testimony and exhibits, it is clear that the ISPR program produces gas costs for the residential and small business classes that are unduly discriminatory. In fact, over the course of the review period of 2003, the cost of gas paid by these firm customers was 21.5% higher than the cost of gas assigned to ISPR customers. Tr. at 211. It has resulted in firm customers paying over \$11 million in excess charges in the test period. Tr. at 219. This type of allocation of gas costs has been found to be discriminatory. See, Maryland People's Counsel v. Federal Energy Regulatory Commission, 761 F.2d 768 (D.C. Cir.1985) and Maryland People's Counsel v. Federal Energy Regulatory Commission, 761 F.2d 780 (D.C. Cir. 1985). Therefore, for this reason alone, this Commission should eliminate or modify the operation of the ISPR. As testified by Mr. Watkins, these changes would be a simple matter to implement. Tr. at 247. The Commission should implement this change immediately in this case.

Respectfully submitted,

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July 8, 2004

## **CERTIFICATE OF SERVICE**

This is to certify that I, Elliott F. Elam, Jr., have served this day the foregoing **Brief of Consumer Advocate** upon the persons named below, at the addresses set forth, by deposit in the United States mail, postage prepaid.

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